

23 October 2017 | 3QFY17 Results Review

## Syarikat Takaful Malaysia Berhad

*Growth continues unabated*

**Maintain BUY**

**Unchanged Target Price (TP): RM4.90**

### INVESTMENT HIGHLIGHTS

- Syarikat Takaful Malaysia Bhd (STMB)'s 9MFY17 PAZTAMI came in within ours and consensus' estimates
- Wakalah fee income trended higher
- We make no changes to existing forecast numbers as the result is within estimates
- We maintain our BUY stance with an unchanged TP of RM4.90 per share

**Within estimates.** STMB's 9MFY17 earnings came in within expectation. It accounts for 76.7% and 75.6% of ours and consensus full year forecast. The 9MFY17 PAZTAMI grew by +10.1%yoy to RM149.4m. The same trend was seen for the quarterly earnings where 3QFY17's PAZTAMI staged a +8.7%yoy increment in comparison to the same period last year.


**Supported by both Family and General Takaful business.** Family takaful's gross earned contributions grew by +5.1%yoy, attributable to higher demand for its mortgage related products. We also note that its net benefits and claims decreased by -12.0%yoy due to reduction in medical claims. On the other hand, general takaful business saw its gross earned contributions climbed higher by +8.9%yoy to RM413.1m with motor and fire products as primary contributors. In light of this, we view the demand for STMB's general takaful product is still resilient given the higher net Wakalah fee income especially from General business, despite the pressure from BNM's 2nd phase liberalization which commenced in July 2017.

**Better combined ratio.** The group's combined ratio for 9MFY17 and 3QFY17 improved -5.6pptsyoy and -12.2pptsyoy respectively. Note that this was primarily driven by decreased medical claims from family takaful segment. Notably, the positive trend was in parallel with the group's overall claims ratio, with -6.3pptsyoy and -10.5pptsyoy drop for 9MFY17 and 3QFY17 respectively. Moving forward, we view the Group's combined ratio to remain healthy underpinned by its robust underwriting practice.

**Impact to earnings.** As the results came in within our estimates, we maintain our earnings forecast at this juncture.

RETURN STATS	
Price (20 October 2017)	RM3.83
Target Price	RM4.90
Expected Share Price Return	+27.9%
Expected Dividend Yield	+3.4%
<b>Expected Total Return</b>	<b>+31.3%</b>

STOCK INFO	
KLCI	1,740.65
Bursa / Bloomberg	6139 / STMB MK
Board / Sector	Main / Finance
Syariah Compliant	Yes
Issued shares (mil)	823.1
Par Value (RM)	0.20
Market cap. (RM'm)	3,152.6
Price over NA	3.96x
52-wk price Range	RM3.58 – RM4.29
Beta (against KLCI)	0.71x
3-mth Avg Daily Vol	0.17m
3-mth Avg Daily Value	RM0.68m
Major Shareholders (%)	
BIMB Holdings	59.7
EPF	12.4

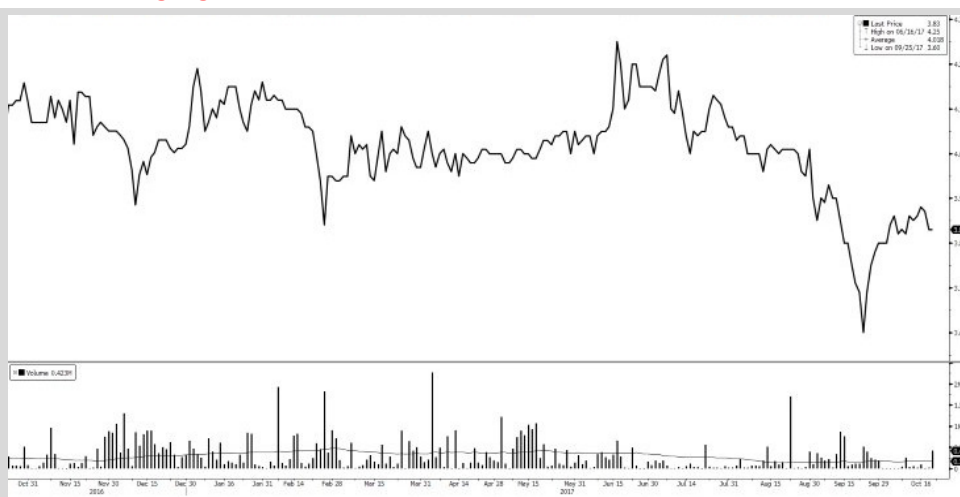
**Valuation and recommendation.** Consequent to the result, we maintain our **BUY** call on Syarikat Takaful. Our **TP** remains unchanged at **RM4.90** as we pegged its **FY18 EPS** to PER of **19x** (1 standard deviation above its 5-year historical average). The higher than average industry's PER is believed to be justified given the group's strong presence in the Family Takaful market, with the largest market share coupled with the low life/takaful penetration rate circa 56.2% (vs 75% target by 2020). Consequently, we are optimistic that Syarikat Takaful will continue its forward momentum despite the growing competition following liberalisation. This is premised on its unique selling proposition of rewarding a 15% Cash Back to its General Takaful customers as well as its ongoing approach to upgrade its distribution channel via digitalization programme. We also view that the recent retracement of its share price makes the stock an attractive investment proposition. 

## INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17F	FY18F
Operating revenue (RM'm)	1,788.60	2,013.30	2,020.90	2,239.90
Net earned contributions (RM'm)	1,256.40	1,486.30	1,783.70	1,996.80
Underwriting profit (RM'm)	216.8	251.4	307.8	344.6
Pre-tax and zakat profit (RM'm)	204.2	221.0	288.9	320.3
<b>PAZTAMI (RM'm)</b>	<b>156.0</b>	<b>176.3</b>	<b>194.7</b>	<b>213.9</b>
Diluted EPS (sen)	19.0	21.4	23.7	26.2
EPS growth (%)	10.8	12.6	10.7	9.7
PER (x)	20.2	17.9	16.2	14.7
Net Dividend (sen)	7.4	12.0	12.0	13.0
Net Dividend Yield (%)	1.9	3.1	3.1	3.4
Book Value (sen)	0.84	0.89	0.89	0.91
PBV (x)	4.6	4.3	4.3	4.2
ROE (%)	22.0	25.7	26.7	28.6
ROA (%)	2.1	2.4	2.4	2.6

Source: Bursa Malaysia, MIDFR

## DAILY PRICE CHART



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Source: Bloomberg

## 3QFY17 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	3Q17	3Q16	2Q17	YoY	QoQ	9M17	9M16	YoY
Gross earned contributions	443.3	423.7	447.4	4.6%	-0.9%	1361.2	1281.0	6.3%
<b>Net earned contributions</b>	<b>374.0</b>	<b>363.3</b>	<b>378.0</b>	<b>3.0%</b>	<b>-1.1%</b>	<b>1149.5</b>	<b>1103.7</b>	<b>4.2%</b>
Administration income	28.1	10.7	11.7	162.1%	141.2%	56.2	36.1	55.8%
Investment income	75.7	74.6	78.3	1.6%	-3.3%	225.2	208.0	8.3%
Realised gains and (losses)	6.6	18.0	9.8	-63.4%	-33.0%	25.0	18.9	32.2%
Fair value gains and (losses)	-15.6	4.2	-2.7	-470.5%	468.9%	-16.0	15.5	-203.1%
Other operating income	2.9	2.5	2.4	14.0%	17.3%	4.8	3.5	35.1%
<b>Other income</b>	<b>97.6</b>	<b>110.0</b>	<b>99.4</b>	<b>-11.2%</b>	<b>-1.8%</b>	<b>295.2</b>	<b>282.1</b>	<b>4.6%</b>
Gross benefits and claims paid	-234.4	-289.9	-234.4	-19.2%	0.0%	-741.6	-844.3	-12.2%
Claims ceded to retakaful	30.4	57.6	25.5	-47.2%	19.2%	89.9	178.8	-49.7%
Gross change to contract liabilities	8.8	20.9	-19.2	-57.8%	-145.8%	-12.7	95.4	-113.3%
Change to contract liabilities ceded	3.6	-12.6	14.9	-128.5%	-75.9%	26.4	-111.5	-123.6%
<b>Net benefits and claims</b>	<b>-191.6</b>	<b>-224.1</b>	<b>-213.2</b>	<b>-14.5%</b>	<b>-10.1%</b>	<b>-638.0</b>	<b>-681.6</b>	<b>-6.4%</b>
Management expenses	-66.3	-70.8	-73.1	-6.4%	-9.4%	-217.8	-201.7	8.0%
Expense reserve	-5.9	6.0	-2.1	-198.1%	185.3%	-31.6	-8.4	277.3%
Other opex	-45.8	-38.8	-45.6	18.0%	0.5%	-137.0	-142.3	-3.7%
<b>Other expenses</b>	<b>-117.9</b>	<b>-103.6</b>	<b>-120.8</b>	<b>13.8%</b>	<b>-2.4%</b>	<b>-386.4</b>	<b>-352.4</b>	<b>9.7%</b>
<b>Profit before tax and zakat</b>	<b>66.0</b>	<b>63.8</b>	<b>59.1</b>	<b>3.4%</b>	<b>11.8%</b>	<b>197.6</b>	<b>180.1</b>	<b>9.7%</b>
Taxation	-17.6	-19.7	-14.5	-10.5%	21.2%	-47.7	-43.9	8.8%
Zakat	-0.2	-0.2	-0.1	-9.3%	23.2%	-0.5	-0.6	-14.3%
<b>PAZTAMI</b>	<b>48.2</b>	<b>43.9</b>	<b>44.4</b>	<b>9.7%</b>	<b>8.7%</b>	<b>149.4</b>	<b>135.6</b>	<b>10.1%</b>
Diluted EPS (sen)	5.88	5.4	5.5	8.1%	7.7%	18.2	16.7	9.4%

Key metrics	3Q17	3Q16	2Q17	+/- ppts	+/- ppts	9M17	9M16	+/- ppts
Claims ratio	51.2%	61.7%	56.4%	-10.5	-5.2	55.5%	61.8%	-6.3
Management expenses ratio	17.7%	19.5%	19.3%	-1.8	-1.6	18.9%	18.3%	0.7
Combined ratio	68.9%	81.2%	75.8%	-12.2	-6.8	74.5%	80.0%	-5.6
Underwriting margin	31.1%	18.8%	24.2%	12.2	6.8	25.5%	20.0%	5.6

Source: Bursa Malaysia, MIDFR

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## MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.